

Message Text

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TAGS: EFIN, EGEN, BE

SUBJECT: INFLATION IN BELGIUM

REF: BRUSSELS 7266

1. SUMMARY: BEGIN UNCLASSIFIED: ALTHOUGH THE BELGIAN GOVERNMENT IS STICKING TO THE ANTI-INFLATION PROGRAM IT ANOUNCED IN AUGUST, INFLATION SEEMS TO BE ACCELERATING. CONFIDENTIAL INFORMATION AVAILABLE TO THE EMBASSY INDICATES THAT THE ANNUAL RATE FOR 1974 MAY WELL BE 15 PERCENT.

2. THERE ARE ALSO FAVORABLE INDICATORS: REAL ECONOMIC GROWTH WILL BE ABOUT 4 PERCENT THIS YEAR; THE BALANCE OF PAYMENTS SEEMS LIKELY TO REMAIN POSITIVE AND; THE BELGIAN FRANC REMAINS STRONG. END SUMMARY.

3. OECD FIGURES RELEASED IN EARLY SEPTEMBER BASED ON THE FIRST SEVEN MONTHS OF 1974) REPORTED THAT BELGIUM HAD AN LIMITED OFFICIAL USE LIMITED OFFICIAL USE

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INFLATION RATE HIGHER THAN THE GENERAL AVERAGE FOR OECD MEMBER COUNTRIES (AVERAGE -13 PERCENT; BELGIUM - 14

PERCENT). REACTING TO THIS ANNOUNCEMENT AND THE PRESS CRITICISM WHICH FOLLOWED, THE TINDEMANS GOVERNMENT HELD A SPECIAL PRESS CONFERENCE ON SEPTEMBER 18 TO DISCUSS BELGIUM'S INFLATION AND THE GOVERNMENT'S PROGRAM TO FIGHT IT.

4. PRIME MINISTER TINDEMANS OPENED THE CONFERENCE BY BLAMING INFLATION IN BELGIUM UPON: (A) INCREASES IN WORLD PRICES FOR RAW MATERIALS; (B) INCREASES IN WORLD PRICES FOR MANUFACTURED GOODS, AND (C) THE DOUBLING OF INTERNATIONAL LIQUIDITY. AGAINST SUCH POWERFUL WORLD ECONOMIC FORCES, TINDEMANS SAID, THERE IS ONLY A LIMITED AMOUNT A SMALL COUNTRY CAN DO. NEVERTHELESS, THE BELGIAN GOVERNMENT IS DEDICATED TO SLOWING DOWN AND REVERSING THE RECENT ACCELERATION IN PRICES RISES PROVIDED DOING SO DOES NOT SERIOUSLY ENDANGER EMPLOYMENT LEVELS. THE PRIME MINISTER POINTED WITH PRIDE AT THE FACT THAT THE BELGIAN FRANC IS CURRENTLY ONE OF THE STRONGEST CURRENCES IN EUROPE AND ASSERTED THIS MUST MEAN MANY INTERNATIONAL FINANCIERS HAVE CONFIDENCE IN THE BELGIAN ECONOMY.

5. FOLLOWING THE PRIME MINISTER, MINISTER FOR ECONOMIC AFFAIRS OLEFFE SPOKE TO THE REPORTERS. HE TOLD THEM THAT USING THE USUAL BELGIAN SYSTEM OF COMPUTING PRICE RISES (BASED ON RETAIL PRICES), INFLATION FOR THE FIRST EIGHT MONTHS OF 1974 IS RUNNING AT 12.5 PERCENT (NOT 14 PERCENT) FOR BELGIUM. REAL GROWTH FOR THE BELGIAN ECONOMY FOR 1974, OLEFFE SAID, WILL BE ABOUT 4.6 PERCENT. BELGIUM'S BALANCE OF PAYMENTS REMAINS FAVORABLE, WITH BOTH THE GOODS/SERVICES AND THE CAPITAL ACCOUNTS POSITIVE FOR 1974.

6. THE MINISTER CONTINUED NOTING THAT GOVERNMENT POLICY REMAINED: (A) TO KEEP CREDIT VERY TIGHT (BRUSSELS 6916); (B) TO GUARD AGAINST UNJUSTIFIED PRICES RISES, AND; (C) TO LIMIT THE INCREASE IN GOVERNMENT SPENDING (BRUSSELS 7265).

7. IN CONNECTION WITH KEEPING PRICES DOWN, HE SAID, LIMITED OFFICIAL USE
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THE MINISTRY OF ECONOMICS WILL UNDERTAKE AN INVESTIGATION OF WHICH SECTORS MOST URGENTLY NEED PRICE LIMITATIONS AND THEN WILL NEGOTIATE DIRECTLY WITH THOSE SECTORS ON KEEPING PRICE RISES TO THE MINIMUM REQUIRED BY FACTORS BEYOND BELGIAN CONTROL.

8. FINANCE MINISTER DE CLERCQ SPOKE NEXT AT THE PRESS CONFERENCE STATING THAT THE CREDIT SQUEEZE WAS HAVING THE DESIRED EFFECT OF SHARPLY CUTTING DOWN THE GROWTH OF THE MONEY SUPPLY. HIS MINISTRY HOPES, HE ADDED,

THAT NEW SYSTEMS OF TAX COLLECTION WILL INCREASE REVENUE. FURTHERMORE, HE CLAIMS HE STILL PLANS A VERY TIGHT GOVERNMENT BUDGET FOR 1975. THE CONSTRUCTION INDUSTRY AND SMALL/MEDIUM FIRMS, HE ADMITTED, ARE HAVING GREAT DIFFICULTY OBTAINING EVEN THEIR USUAL LEVEL OF CREDITS.

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9 BEGIN LIMITED OFFICIAL USE -- ACCORDING TO CONFIDENTIAL INFORMATION GIVEN TO US BY AN OFFICER IN THE RESEARCH SERVICE OF THE MINISTRY OF ECONOMIC AFFAIRS, THE SEPT. FIGURES FOR INFLATION IN BELGIUM WILL BE EVEN HIGHER THAN THOSE OF AUGUST. USING THE OECD METHOD, INFLATION FOR 1974 IN BELGIUM, HE BELIEVES, IS LIKELY TO BE 15 PERCENT BY DECEMBER. (JUST THREE MONTHS AGO THIS SAME SOURCE -- BRUSSELS 5643 -- PREDICTED 13 PERCENT FOR THE YEAR)

10. OUR SOURCE INDICATES THAT BECAUSE OF THE CREDIT SQUEEZE, BANKRUPTCIES ARE EXPECTED TO GROW CONSIDERABLY IN THE NEXT FEW MONTHS (BUT HE CITED NO FIGURES), PARTICULARLY AMONG TEXTILE MANUFACTURERS AND IN THE DISTRIBUTION NETWORK FOR TEXTILES AND SIMILAR PRODUCTS. COMMENTING ON THE STRENGTH OF THE BELGIAN FRANC, HE ATTRIBUTED MUCH OF IT TO THE FACT THAT BELGIANS, FOR REASONS, WHICH HE SAID WERE UNCLEAR, ARE REPATRIATING SUBSTANTIAL CAPITAL FROM ABROAD (INCLUDING FROM THE GERMAN AND US STOCK MARKETS). THIS HAS PUT UPWARD PRESSURE ON THE BELGIAN FRANC.

11. OUR SOURCE ADDED THAT PRELIMINARY DATA AVAILABLE
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TO HIM SUGGESTS THAT THE ESTIMATED REAL GROWTH FOR GNP (4.6 PERCENT) CITED BY THE MINISTER OF ECONOMICS MAY BE TOO OPTIMISTIC AND SOMETHING AROUND 4 PERCENT IS MORE LIKELY. HE BLAMED THIS FALL ON RISING PRICES FOR BELGIAN IMPORTS.

12. COMMENT: THE BELGIAN COST-OF-LIVING INDEX CONTAINS ONLY CONSUMER GOODS AND WHEN COMPARED WITH OECD INDICES GIVES A LOWER INFLATION RATE UNDER CURRENT CONDITIONS. AS STATED ABOVE, THE LATEST OECD FIGURES ASSIGN BELGIUM AN INFLATION RATE OF 14 PERCENT WHILE THE BELGIAN METHOD SHOWS 12.5 PERCENT. FOR THE NETHERLANDS, THE COMPARABLE FIGURES ARE: OECD INDEX -10 PERCENT; BELGIAN INDEX - 11 PERCENT. FOR GERMANY THE FIGURES ARE: OECD INDEX - 7 PERCENT; BELGIAN INDEX - 10 PERCENT.
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